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room _____ date 3/24 Assistant Secretary
(International Affairs)

Bill:

Attached is a first cut of a draft Terms of Reference for the study we discussed this morning. I understand that Lionel may also be sending you a draft outline of the study. We can go over these and refine them at an interagency meeting on the paper, which we should set up as soon as possible. My office will follow up.

Attachment

cc: Jim Buckley, Lionel Oliver, Fred Ikle,
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SECRET ATTACHMENT

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TERMS OF REFERENCE FOR CIA STUDIES IN
SUPPORT OF FOLLOWUP TO BUCKLEY MISSION

Primary Objectives of Followup Work

The Mission successfully set in motion a process which, while its outcome is not assured, can lead to agreed quantitative restrictions by the key allies on officially supported medium- and long-term export credits to the USSR. We must push the process rapidly to a satisfactory outcome, preferably before the Versailles Summit in June. We need the Agency's help in providing background information and analyses that (1) will aid us in sharpening our approaches to the West Europeans and Japanese, taking into account the particular interests and sensitivities of each; and (2) will provide us with reliable estimates of the impact of official credit cutbacks. The work required will involve the combined forces of the Agency's West European, East European, and USSR analysts.

Key Parameters and Assumptions

- For purposes of analysis, limit coverage of the Allies to the Summit Seven: U.S., U.K., France, Germany, Italy, Canada, and Japan.
- Assume that a complete cutoff of officially supported credits is not an immediate objective. Instead, assume a functional system that begins with a moderate reduction in credits and proceeds, over time, to tighten credit availabilities.
- Treasury is developing a proposed approach as well as a draft Allied agreement along the lines mentioned above. These will be shared with the Agency and the Buckley group both for critique and to provide a general scenario for the analysis. If successful, the analysis will provide a basis for modifying and improving the U.S. negotiating approach.
- Papers should be prepared in two versions; one classified for use by the USG, the other sanitized for possible distribution during the negotiations.
- Papers must be completed by April 9, 1982. If possible, interim assessments should be presented and discussed in a meeting among CIA analysts and Buckley Mission agency reps. on April 2.

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For Discussion

- (1) Assess the impact, over time, of the proposed restrictions of officially supported credits on the USSR's hard-currency availabilities through the end of the decade.
 - (a) To understand that neither the restriction nor even the cessation of officially supported credits, by themselves, can have a large impact. The real impact depends on pull-backs in bank lending which official credit limitations will induce. Therefore, it will be necessary to frame one or more reasonable hypotheses on reductions in bank credit associated with official credit restrictions, in order to carry the impact analysis through to a conclusion.
- (2) Weigh the results of (1) above against Soviet hard-currency requirements to service Western debt. The key question is: Will debt-service capability be impaired to the point where the West would damage itself by excessive credit limitation?
- (3) Based on (1) and (2), what is your best judgment on an optimum level of credit restriction, given Western interests in getting repaid but not financing Soviet economic development, and in ultimately reducing official credit flows to negligible amounts?
- (4) How are the Soviets likely to respond to the hard-currency shortages induced by Western credit limitations? What are their economic decision-making options?
- (5) The "bottom line" to question (4) above is: Will Soviet imports from the West be curtailed? If so, where? In what product lines? For how long? What will such cuts mean for the Soviet economy?
- (6) Since credit restrictions are not now proposed to be placed on lending to Eastern Europe, what is the potential for "leakage" -- i.e., the USSR's use of western credit to the satellites to finance its own imports, either directly by transshipment or indirectly by altering the terms of intra-CMEA trade? This should be a political and economic analysis because much depends on the satellites' willingness and ability to cooperate, on the one hand, and their freedom not to, on the other.

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- (7) What will be the impact of reduced Soviet hard-currency imports on the exporting Western economies? Analyze this question from both "macro" and "micro" perspectives to assess the strength of the actual economic foundations for European political reluctance to go along with credit restrictions.
- (8) Provide a political/economic analysis of each of the Big Six allies, to:
- (a) assess the roots and strength of potential opposition to credit restrictions;
 - (b) identify the basic allied national interests that will come into play during the negotiations; and
 - (c) identify and evaluate the key burden-sharing issues that will have to be resolved.

(Note: this paper obviously does not need to be prepared in a sanitized version.)

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Classified by RLC/600000
Declassify on: 14 years for
Exemption from: 2/20/50